GENERAL SIGNAL

ANNUAL REPORT 1981

ELECTRONIC

ION

INSTRUMENTATION

TRANSPORTATION

ELECOMMUNICATIONS

ELECTRICAL

AVIATION

FLUID

ICROELECTRONICS

CONTROLS

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GENERAL SIGNAL ANNUAL REPORT 1981

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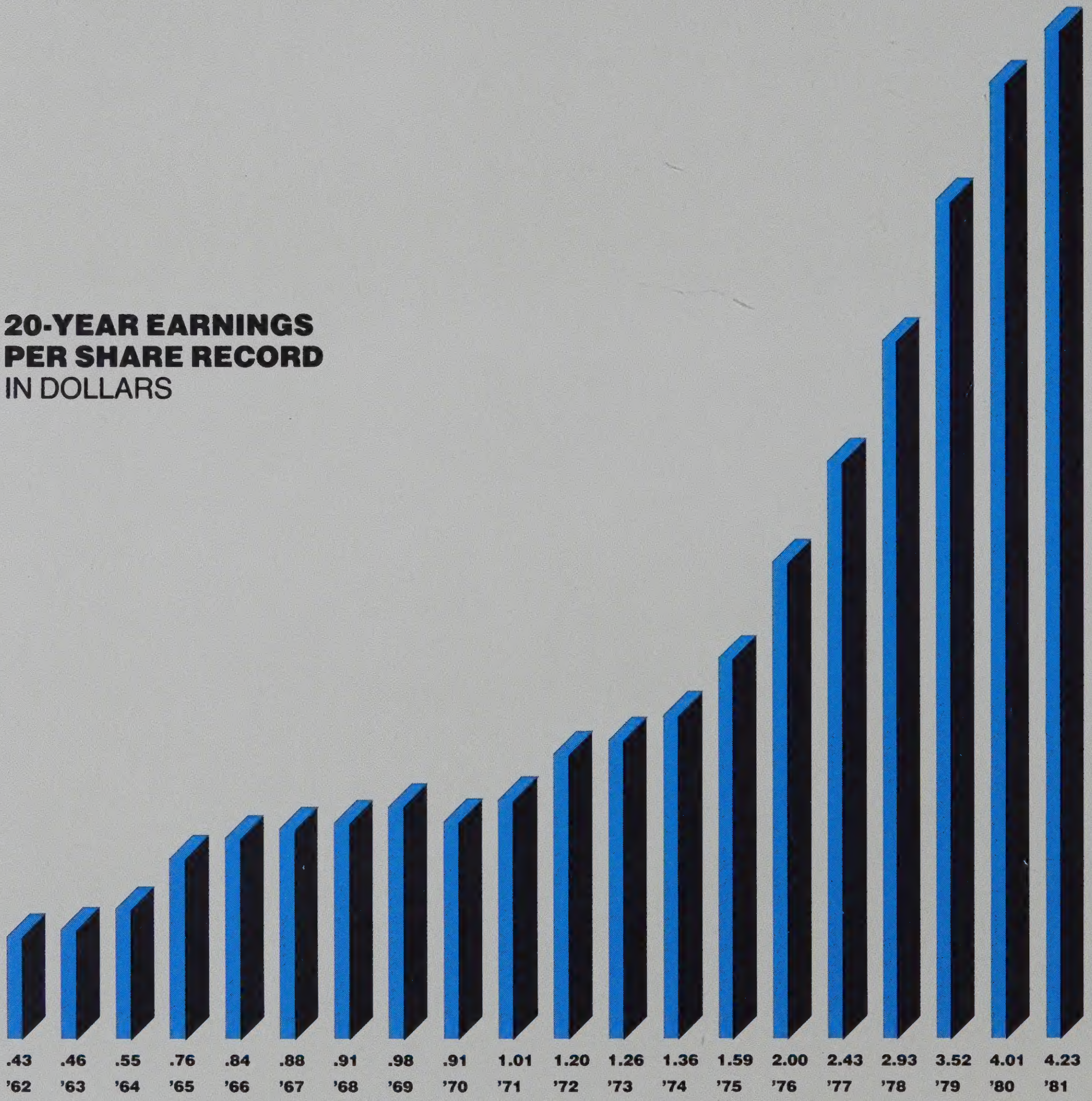
20-YEAR EARNINGS PER SHARE RECORD
IN DOLLARS



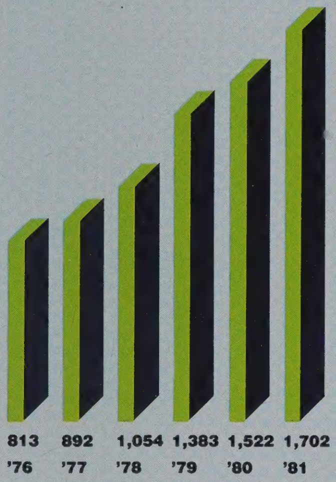
(AS ORIGINALLY REPORTED, ADJUSTED FOR 2-1 STOCK SPLITS IN JANUARY 1972 AND JULY 1977. COMPARABLE AMOUNTS FOR THE SIX YEARS 1976-1981, RESTATED AS APPROPRIATE FOR ACQUISITIONS, APPEAR IN THE SIX-YEAR FINANCIAL SUMMARY ON PAGE 26.)

COVER

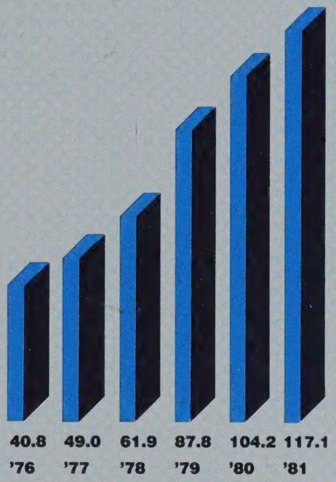
Leadership positions in the manufacture of controls for industrial automation, conservation and management of electric energy, rail transportation, telecommunications and semiconductor processing are at the core of General Signal's strategy for continued growth.

FINANCIAL HIGHLIGHTS

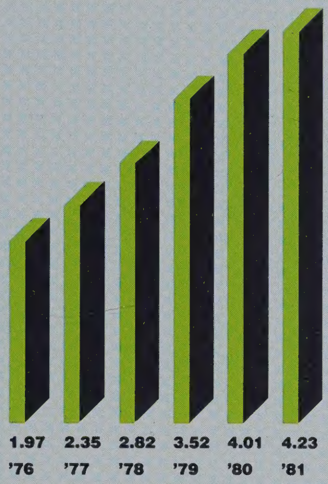
SALES $ IN MILLIONS



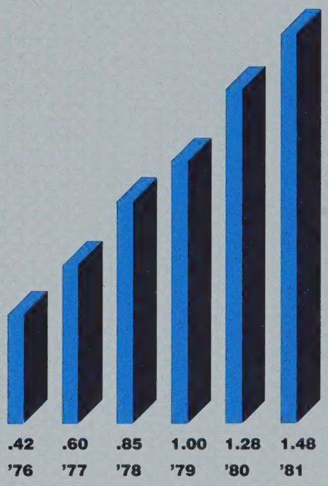
NET EARNINGS $ IN MILLIONS



EARNINGS PER SHARE IN DOLLARS



DIVIDENDS IN DOLLARS



Highlights of the Year in thousands	**1981**	1980	Increase
Net sales	**$1,702,455**	$1,521,744	11.9%
Earnings before income taxes	**$ 218,853**	$ 193,174	13.3%
Net earnings	**$ 117,132**	$ 104,214	12.4%
Earnings per average share of common stock	**$4.23**	$4.01	5.5%
Dividends paid per common share	**$1.48**	$1.28	15.6%
Working capital	**$ 489,381**	$ 427,564	14.5%
Total assets	**$1,222,840**	$1,136,277	7.6%
Return on stockholders' equity	**16.6%**	16.8%	

TO OUR SHAREHOLDERS:

1981 was our eleventh consecutive year of gains in sales, net income and earnings per share, but the earnings per share gain was narrower than those of recent years. Sales in 1981 increased 11.9% to $1.70 billion. Net income rose 12.4% to $117.1 million. Earnings per share rose 5.5% from $4.01 to $4.23.

General Signal's ability to keep intact its string of record earnings in the face of adverse conditions in the railroad freight car and semiconductor markets and an unfavorable foreign currency impact illustrates the strong momentum in other areas of the company's business.

The negative impact on 1981 consolidated net income of translating foreign operations into U.S. dollars was approximately $8.4 million, or $.30 per share. Except for this translation effect, General Signal continued to make good progress toward two of its principal goals, improvement of margins and return on equity. Had substantially all of the effects of foreign currency translation been recorded as a component of stockholders' equity as is now permitted, General Signal would have reported pretax margins above 13% and return on equity above 17%, well on the way to our respective near-term goals of 14 to 16% and 18 to 20%.

Our energy control, fluid process control and consumer products groups achieved higher sales and profit margins in 1981. A twenty-year low in freight car demand caused a significant decline in the profitability of the transportation control group.

Cash generation was excellent in 1981, and our balance sheet continued to strengthen during the year. Cash and marketable securities at year end exceeded short-term debt by more than $65 million, and long-term debt declined from 11% of total capitalization in 1980 to 10%.

Our strong balance sheet enables us to continue to make strategic acquisitions and to support growth opportunities in our existing operations. During 1981 we expanded our commitment to the semiconductor capital equipment market through the acquisitions of Blue M, Micro Automation and Spitfire, leading manufacturers respectively of industrial and scientific process chambers, wafer handling systems and wafer polishing equipment. These companies contribute to our ability to offer the microelectronics industry a broad range of production equipment.

In October the board of directors raised the dividend from the $1.48 paid in 1981 to $1.60 payable in 1982. This was our tenth increase in as many years, representing a compound rate of gain of 18.2%. We expect to continue dividend growth at a rate at least in line with our earnings per share gains.

Nathan R. Owen and David T. Kimball

We welcomed Reginald H. Jones as a member of our board of directors last April, following his retirement as chairman and chief executive officer of the General Electric Company.

General Signal's record of consistent growth in earnings per share now extends to 19 of the past 20 years. Variations in the general economy will affect performance in a given year, but on average we have achieved our long-range goal of keeping our earnings per share growth at least 5 to 10% ahead of inflation. Although 1981's results leave us ground to make up, we believe we are well positioned to achieve this objective as we move through the decade.

While we are taking a cautious view of the outlook for the general economy in 1982, particularly in the first six months, we expect that General Signal will produce another earnings record this year.

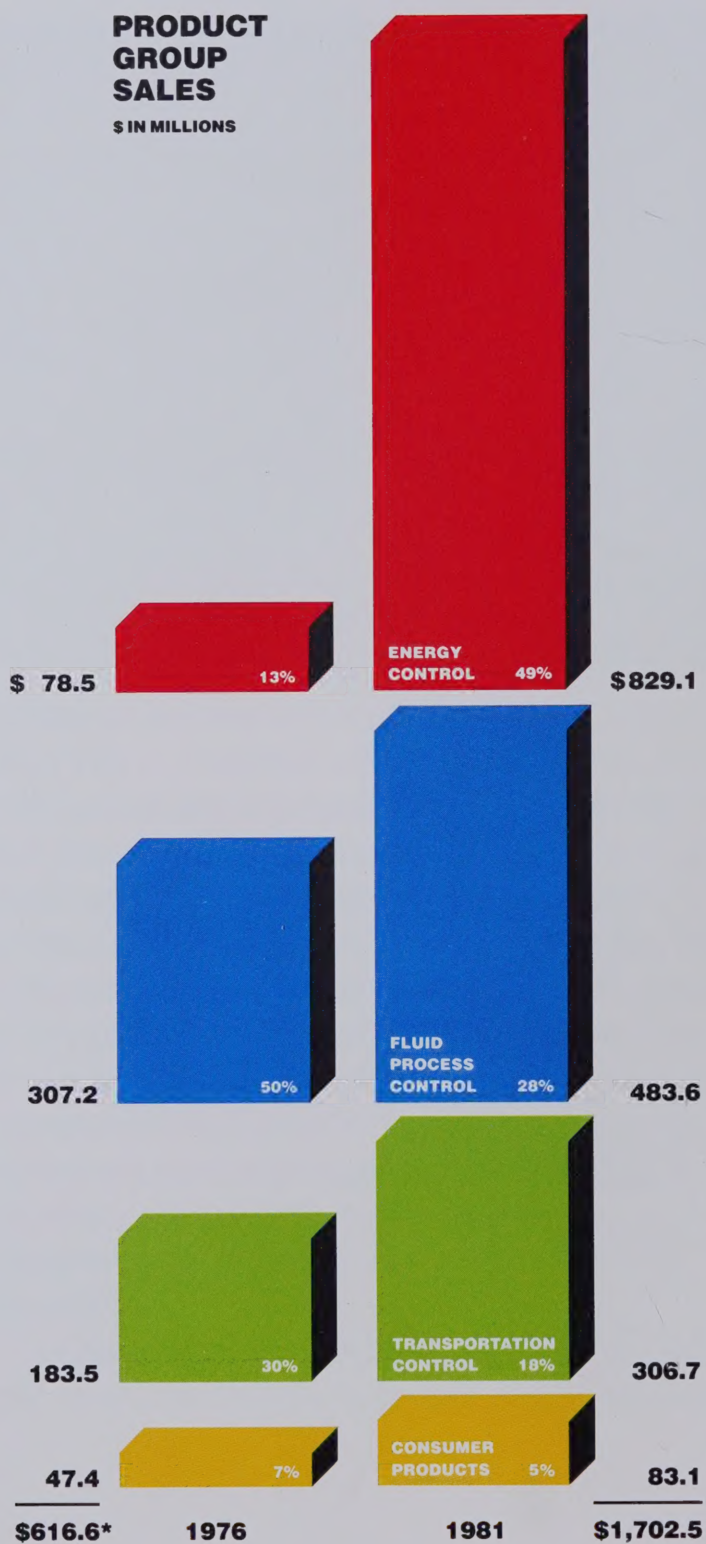
Nathan R. Owen

Chairman

D T Kimball

President

GENERAL SIGNAL— DESIGN FOR GROWTH



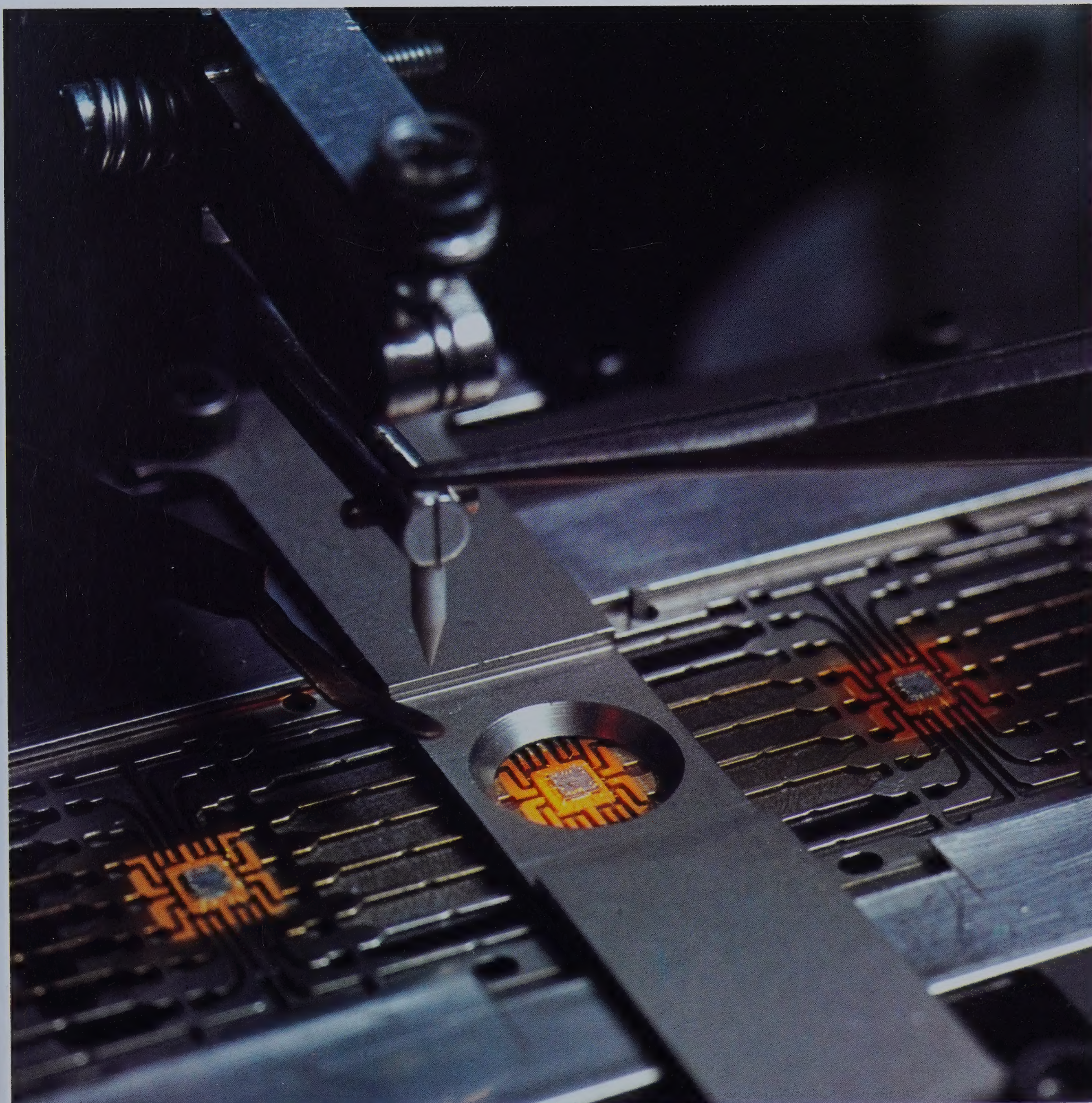
*AS ORIGINALLY REPORTED

General Signal's instrumentation and controls enable a broad range of industries to manage their operations for optimum cost effectiveness. Each of the company's three control product groups offers capital equipment essential to meeting the challenges of industrial productivity and energy sufficiency.

This design has been carefully shaped over twenty years of steady growth in sales and earnings, but the last five years have been the most dynamic in the company's development. The energy control group's contribution has risen from 13% of total reported sales in 1976 to 49% in 1981 as the result of major new stakes in controls for electric energy and telecommunications and expansion into a broad range of semiconductor capital equipment such as the advanced wire bonder for packaging integrated circuits shown on the facing page.

The company's fluid process control and transportation control groups continued their good growth during these five years, rising from $491 million in reported sales to $790 million. These groups produce instrumentation and controls for the automation of industrial processes and for two highly energy-efficient modes of transportation, mainline railroads and rail mass transit systems.

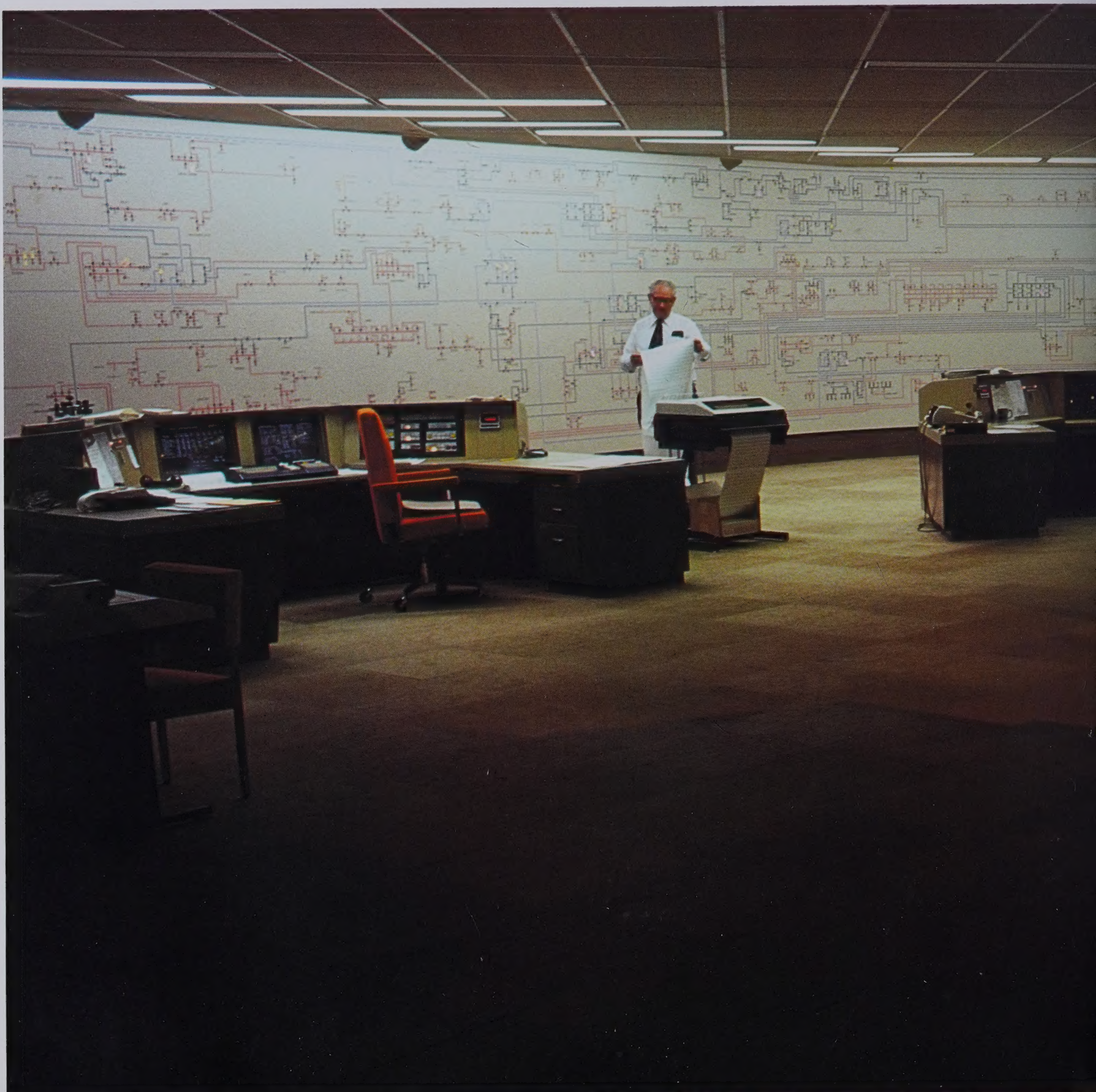
General Signal's leadership in control technologies and its positions in growing markets should help to ensure strong and consistent growth.



CONTROLS FOR ENERGY

Conservation and cost-effective management of electric energy, as well as development of new methods and fuels for its generation, are essential responses to the challenges posed by rising prices and diminishing reserves of oil and gas. General Signal instrumentation and controls play major roles in each of these areas.

The company occupies leadership positions in boiler control systems and scrubber controls and coal metering equipment for the automation of new coal-fired power plants and the growing number of existing plants being



converted to coal. General Signal is also a leading manufacturer of electric energy distribution and control systems. These systems enable utilities and industrial plants to manage complex installations for the most economical generation and reliable distribution of electricity.

Virginia Electric and Power Company, for example, uses the General Signal computer-directed energy management system shown below to control six fossil, two nuclear, three hydroelectric and seven combustion turbine power stations from one central operations room. The utility uses an identical second system for operational studies and new program development and modeling.

For users of electricity who require additional assurance of continuous and unvarying power, the company offers a broad line of power conditioning equipment: voltage regulators and regulated and uninterruptible power supplies. Telephone utilities, transportation systems, broadcast networks and hospitals are major customers in this field, as are manufacturers and users of computers and other sensitive electronic equipment.

General Signal products for industrial energy conservation and management also include a wide range of electric heat processing equipment. This equipment ranges from environmental chambers for manufacturing research and microelectronics production to large pit furnaces for processing iron and steel. It offers precise control of heat processes, and reduces industry's reliance on oil and gas.

One consequence of the high price and less certain supply of oil is that the more difficult recovery and processing of heavier crude become worthwhile. A growing number of refineries, such as the Crown Central Petroleum installation pictured below, are being refitted for heavy crude refining with General Signal specialty control valves. The company leads in the production of precision valves that can withstand the extraordinary temperatures and pressures and corrosive conditions that heavy crude processing entails. These properties also assure the application of General Signal control valves in the synthetic fuels industry.

CONTROLS FOR ENERGY

Steam coal forms a larger part of each year's energy picture, in this country and in a growing number of others. In 1981, for the first time since 1969, coal-fired plants accounted for more than half the megawatts generated in the United States. Coal's share will continue to rise as some 55% of new plants are planned for coal, and older ones continue to convert from oil.

To be truly economical, coal must be handled by precise modern methods. The Texas Utilities power plant pictured below typifies the coal engineering challenge. General Signal, the leading producer of coal metering equipment, solved severe sticking and fouling problems to automate the handling of intractable wet local lignite to save the utility both fuel and operating costs.

Other oil-importing countries besides the U.S. are turning to coal as a less expensive and more plentiful and reliable source of energy. General Signal's leadership in power plant solutions assures the company of a significant share of the overseas market.

The National Coal Association estimates that U.S.

coal exports, which totaled 73 million tons in 1980, will double by 1990. Major beneficiaries of this growth will be the nation's mainline railroads. Despite a two-month miners' strike in 1981, coal carloadings rose from the prior year. The railroads have begun to expand and improve their lines and equipment to keep pace with the increased traffic. Coal is a major spur to the rebirth of rail transportation, but increasing amounts of such other vital commodities as grain and chemicals are being shipped by rail, taking advantage of the combined effects of rail freight's

clear and growing margin of energy efficiency and of the improved service the industry is able to offer under deregulation. Revenue ton-miles held steady in 1981 despite the weak economy; and Class I railroads' earnings more than doubled in the first nine months. The first apparent effects of the Staggers Rail Act of 1980 are more flexible resource allocation, greater operating efficiency and rapid recovery of inflation-induced cost increases.

General Signal has provided such essential equipment as computer-directed systems for centralized traffic control offices and freight car classification yards, wayside signaling and cab controls, line-carried information systems and braking systems to virtually every mainline railroad in the U.S., and many overseas.

Commuters in metropolitan areas are also turning to the rails as an alternative that offers speed, convenience and far less pollution than the automobile. The General Signal system being programmed and tested in this photograph will monitor and control switching, signaling and train movement along 350 miles of New York City regional

commuter lines for maximum speed and safety. The reallocation of federal mass transit support from operating subsidies to capital improvements emphasizes projects like this one that rehabilitate and update existing systems. General Signal expects this emphasis to lead to growing demand for its control and supervisory equipment.

CONTROLS FOR INDUSTRIAL AUTOMATION

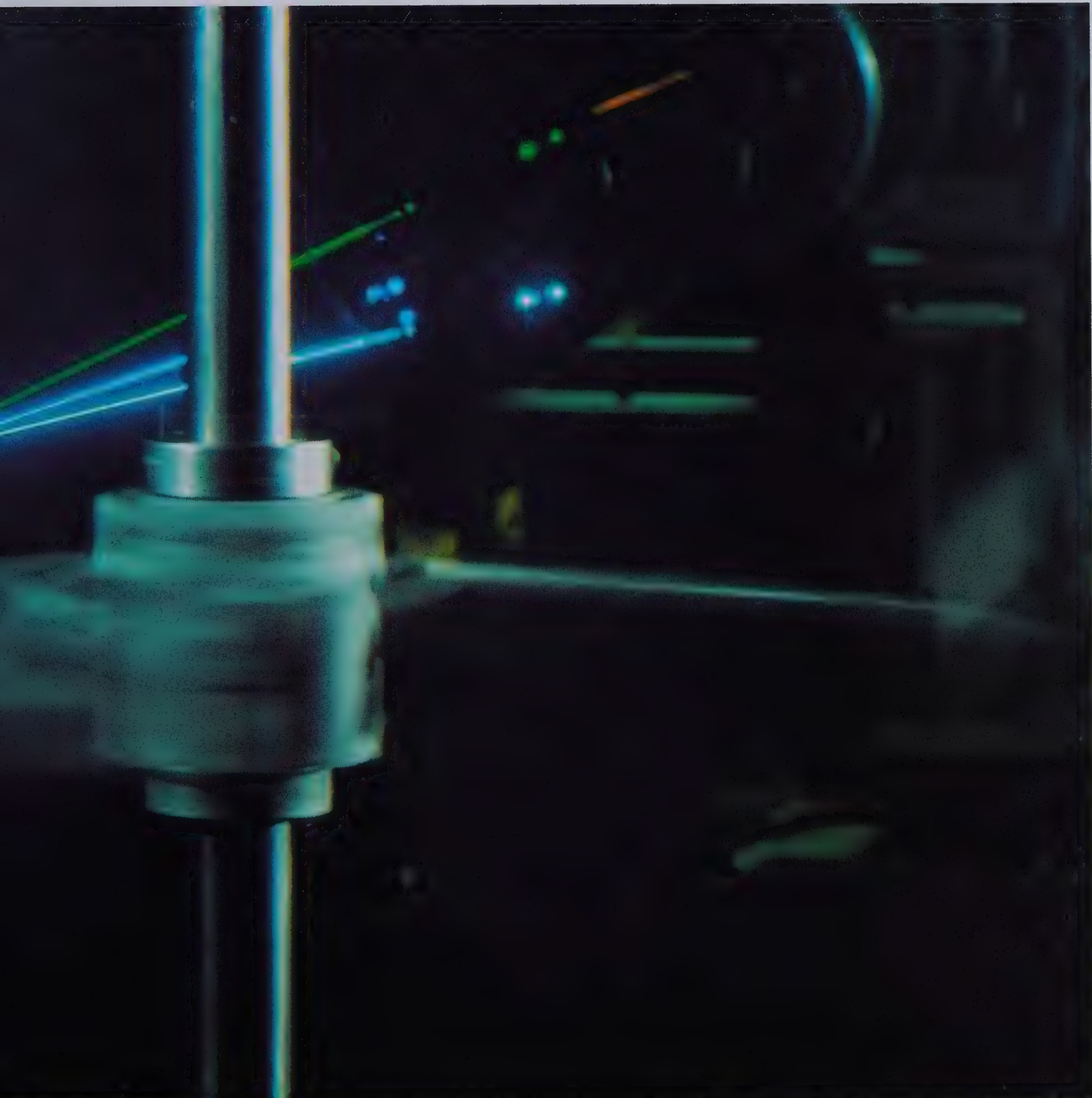
As the costs of energy, materials, plant and labor rise, industry seeks new ways to advance manufacturing technology and raise productivity. Industrial automation makes each dollar of capital invested, each man hour worked and each unit of energy employed more productive.

General Signal advances applied technology with research and development efforts like the laser laboratory shown below. Mixers and agitators for such process industries as chemicals, petrochemicals and pharmaceuticals are test run under tightly controlled simulated

industrial conditions. Laser beams are bounced off suspended particles and analyzed by a computer that models fluid dynamics. This is the only facility in the world using lasers to research and improve mixing technology.

The company also applies laser technology in industrial instruments that monitor and analyze particles in flowing process streams, and other advanced technologies in a wide range of new ways to automate industrial processes. Semiconductor technologies make possible advanced instruments for such process parameters as pressure, temperature and flow. New optical devices will offer interference-free data transmission for more precise process control, and new methods of data storage are being developed. New technologies will also bring instrumentation to very hostile environments: for measurement of caustic brines in geothermal wells and of contaminated or hazardous fluid streams, and for automatic analysis of particles produced in coal gasification reactors.

All of General Signal's product groups play major roles in industrial automation. The company is a leading



producer of the basic building blocks necessary to automate a manufacturing process. It offers a wide array of pumps, specialty control valves, mixing and metering equipment, environmental chambers, electrical control and distribution devices, microelectronics production equipment and instrumentation. General Signal offers industry control over entire processes or subprocesses with an extensive line of analog and digital computer-directed supervisory systems. The company's products for industrial automation reduce energy usage and manufacturing costs, and improve product quality and yield. Pictured below is an aerating header that uses 75 General Signal control valves to process petroleum byproducts in the primary collection lagoon of a major U.S. refinery.

The favorable depreciation and investment tax credit provisions of the Economic Recovery Act of 1981 will begin to encourage U.S. industry to concentrate spending on productivity-improving capital equipment. One of the most promising routes to improved industrial productivity is the increasing use of microelectronics. Semiconductor

devices have not only transformed data processing and communications; they also play a vital and growing role in manufacturing processes. Computer aided design (CAD) and computer aided manufacture (CAM) require very powerful electronic logic and massive data storage. Microelectronics are also built into a wide variety of manufactured goods, from numerically controlled machine tools and sophisticated medical equipment to video games.

U.S. chipmakers have announced some forty new plants in the past year, indicating their expectation of the

CONTROLS FOR INDUSTRIAL AUTOMATION

industry's return to its traditional rapid growth. Industry sources expect semiconductor device sales to rise at an average rate of 20% over the next five years, with production equipment growing at an even faster rate of 25-30%. General Signal offers the microelectronics industry the widest range of production equipment of any manufacturer. The company participates in each of the major segments of this market: from crystal-growing furnaces and wafer polishers and saws at the beginning of wafer fabrication, through wafer steppers, diffusion furnaces and other equipment for generating circuit patterns, to testing and packaging equipment.

The new direct-digital-controlled diffusion furnace shown below prepares silicon wafers to receive each layer of circuit pattern by introducing other materials into their crystal structure. Loading, timing, temperature and composition are tightly controlled by a single English-language-accessible system, rather than by the separate controllers of more conventional furnaces. Superior analog-to-digital resolution further enhances process repeat-

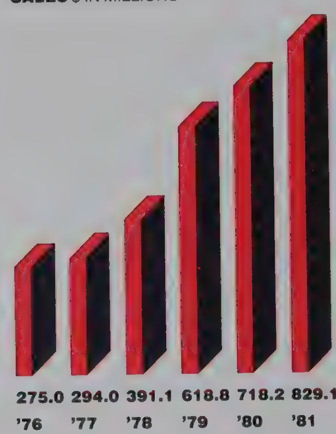
ability, a critical matter in microelectronics production.

Semiconductor production equipment is only one important component of General Signal's broad range of instrumentation and control equipment for industrial automation. With leadership positions in control equipment and systems for all the process industries, for conservation and management of electric energy, for telecommunications and for rail transportation, General Signal is well positioned to expand its record of consistent growth through the 1980s and beyond.

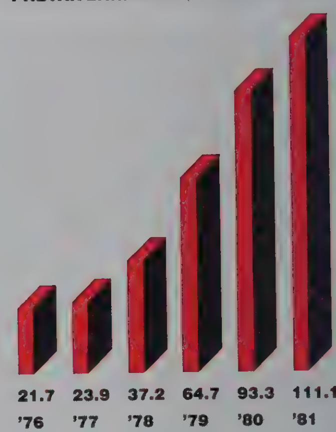
CONTROLS FOR INDUSTRIAL AUTOMATION

FINANCIAL REVIEW

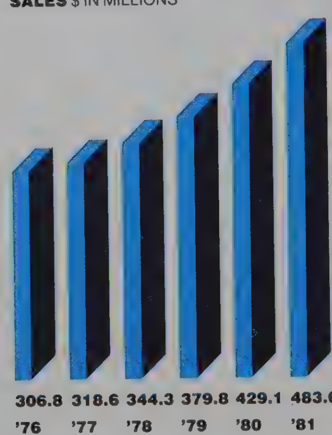
ENERGY CONTROL
SALES $ IN MILLIONS



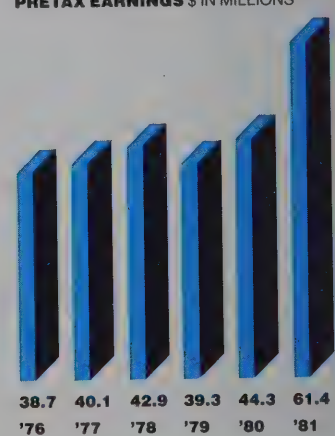
ENERGY CONTROL
PRETAX EARNINGS $ IN MILLIONS



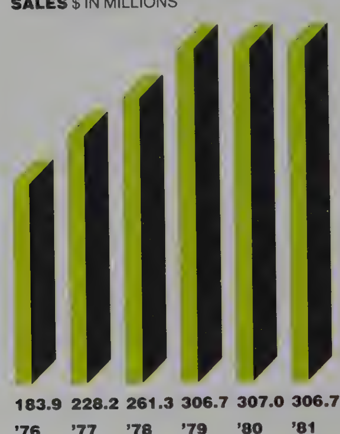
FLUID PROCESS CONTROL
SALES $ IN MILLIONS



FLUID PROCESS CONTROL
PRETAX EARNINGS $ IN MILLIONS



TRANSPORTATION CONTROL
SALES $ IN MILLIONS



TRANSPORTATION CONTROL
PRETAX EARNINGS $ IN MILLIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1981 Compared to 1980

Despite adverse economic conditions in a number of key markets and the unfavorable impact of translating foreign operations into U.S. dollars, General Signal's unbroken string of improved sales, net income and earnings per share was extended to eleven years in 1981. Sales rose 11.9% to $1.70 billion from $1.52 billion in 1980. Pretax income for 1981 was $218.9 million, a 13.3% increase over 1980, and pretax margins grew slightly to 12.9% from 12.7% in 1980. Net income of $117.1 million in 1981 represented a gain of 12.4%. Earnings per share increased 5.5% to $4.23 on higher average shares outstanding.

Cost of sales and operating expenses in 1981 totaling $1.16 billion represented an increase of 11.3% from the 1980 amount but, as a percentage of sales, dropped to 68.1% from 68.5% in the prior year. While price and volume changes are important factors in the improved operating results, meaningful discussion of their effect on operating results is not possible because of the wide range of products within General Signal's product groups and, in many cases, within individual operating units. Also, more than half the value of the Company's shipments consists of custom products and systems.

Selling, general and administrative expenses rose 13.3% to $319.5 million in 1981 from 1980's $282.1 million. As a percent of sales such expenses were 18.8% in 1981 and 18.5% in 1980.

Changes in the exchange rate between the dollar and the currency in which the assets and liabilities of a foreign operation are denominated result in an exchange gain or loss when the financial statements of the foreign entity are translated into U.S. dollars. Under the procedures set forth in Statement of Financial Accounting Standards (SFAS) No.8, current assets (other than inventory) and essentially all liabilities are translated into dollars using the exchange rate at the balance sheet date, and resulting gains or losses are included in net income for the period. All other assets including inventory and fixed assets are translated at the rates that existed when the assets were acquired. When inventory is shipped and as the fixed assets are depreciated, the related expenses are included in cost of sales at these historic rates. In 1981, when the U.S. dollar exhibited relative strength against virtually all other currencies, inclusion of these costs at the higher historic rates while sales and other expenses were translated at the lower current rates adversely affected gross margin and net income.

The negative impact on 1981 consolidated net income of translating foreign operations into U.S. dollars pursuant to SFAS No. 8 was approximately $8.4 million, or $.30 per share. The effect in 1980 was a $1.7 million gain, equivalent to $.06 per share.

In December 1981, as a result of widespread criticism of SFAS No. 8, the Financial Accounting Standards Board adopted SFAS No. 52, which alters appreciably the accounting for currency translation adjustments. The new standard is mandatory for years beginning on or after December 15, 1982. If applied retroactively it would eliminate most of the impact on 1981 earnings.

Interest income rose to $11.3 million in 1981 from $10.3 million the year earlier, reflecting higher yields. Interest expense rose to $15.6 million from $14.7 million, primarily the result of higher interest rates.

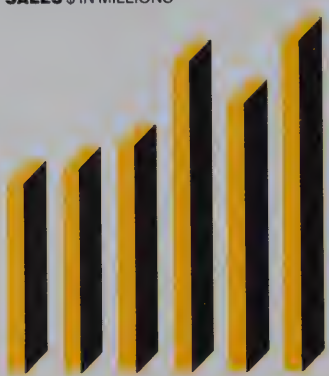
The provision for income taxes was 46.5% of earnings before taxes in 1981, up from 46.1% for 1980. The higher effective tax rate in 1981 resulted principally from the above mentioned impact of foreign currency translation, for which General Signal receives no tax benefits, partially offset by various foreign and domestic tax credits.

The effect of inflation on the Company is discussed in note B to the financial statements (page 36).

Product Group Review

Sales of the *energy control group* increased by $110.9 million to $829.1 million, a gain of 15.4% over 1980 levels. Of this increase, approximately $73.7 million represents the revenues of three 1981 acquisitions accounted for as poolings of interests, for which prior year financial statements have not been restated, and of Stock Equipment Company, purchased in December 1980, whose revenues were included for 12 months in 1981, but only one month in 1980. Revenue increases in 1981 which exceeded the group's overall improvement of 15.4% were registered by a number of operating units, including particularly strong performances in telecommunications equipment, certain segments of the electrical components market and coal metering equipment, and by Leeds & Northrup's domestic operations, whose 1980 performance was adversely affected by a three-month strike. Partially offsetting these increases were the semiconductor capital equipment units, whose sales declined approximately 12% from the 1980 levels due to the extremely depressed market conditions in that industry. Pretax income of the group rose 19.1% to $111.1 million in 1981, resulting in pretax margins advancing from the 1980 level of 13.0% to 13.4% in 1981. Improvements in margins were generally consistent with sales growth, although some units experiencing limited sales gains improved their pretax margins through a combination of cost reduction efforts and

CONSUMER PRODUCTS
SALES $ IN MILLIONS

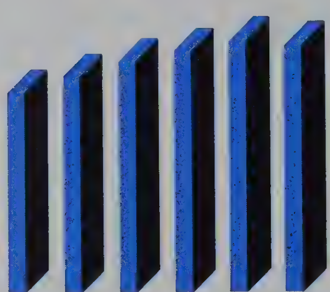


47.4	51.4	57.0	77.8	67.4	83.1
'76	'77	'78	'79	'80	'81

CONSUMER PRODUCTS
PRETAX EARNINGS $ IN MILLIONS

(0.4)	3.6	5.6	6.6	1.1	7.1
'76	'77	'78	'79	'80	'81

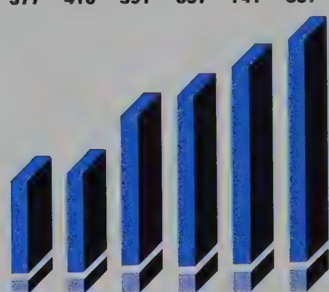
RETURN ON EQUITY



13.4%	14.5%	15.4%	16.2%	16.8%	16.6%
'76	'77	'78	'79	'80	'81

CAPITALIZATION $ IN MILLIONS

377	410	591	657	741	837



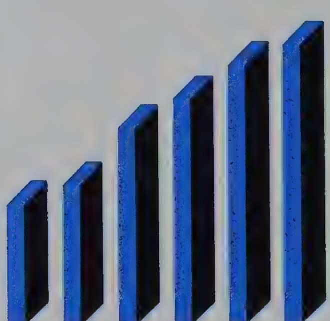
STOCKHOLDERS' EQUITY

85%	87%	86%	88%	89%	90%

LONG TERM DEBT

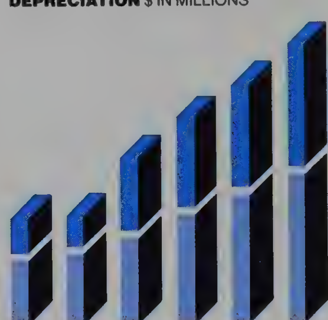
15%	13%	14%	12%	11%	10%
'76	'77	'78	'79	'80	'81

ASSETS $ IN MILLIONS



545	618	874	998	1,136	1,223
'76	'77	'78	'79	'80	'81

CAPITAL EXPENDITURES AND DEPRECIATION $ IN MILLIONS



CAPITAL EXPENDITURES

22.1	22.2	33.5	42.0	48.8	57.3

DEPRECIATION

13.9	14.7	18.6	23.4	26.7	30.9
'76	'77	'78	'79	'80	'81

a more favorable product mix. $14.7 million of the 1981 gain in pretax income is attributable to the four acquisitions cited earlier.

Fluid process control group revenues were up 12.7% in 1981 to $483.6 million from $429.1 million a year earlier. Increased sales were recorded by all units in the group, with the most significant growth coming from industrial process control markets, especially for pumps, mixing equipment and valves, the latter including revenues from the specialty valve business acquired in November 1980. Pretax income increased 38.6% from $44.3 million to $61.4 million, and pretax margins rose to 12.7% from the year-earlier 10.3%. Pretax income improvement is attributable to the effects of higher volume, price increases and cost reductions.

Transportation control group sales were essentially unchanged from the 1980 level of $307.0 million, finishing at $306.7 million in 1981. Higher sales levels were achieved by those units providing air traffic and marine controls, cold-forged automobile components and systems and control equipment for the mainline railroad and mass transit markets. These increases, however, were completely offset by a decline in shipments of railroad freight car air brake equipment. Pretax income for the group decreased 27.9% to $39.3 million, reflecting the lower air brake shipments. The group's pretax margins, which have been among the Company's highest in recent years, fell from 17.8% in 1980 to 12.8% in 1981.

The *consumer products group* recovered from the depressed 1980 level, recording a 23.3% sales gain to $83.1 million in 1981, and increasing its pretax income to $7.1 million in 1981 from the 1980 level of $1.1 million. Higher shipments of lightweight vacuum cleaners both in the U.S. and in Canada, together with strong exports, were the principal reason for increased profits, while fractional horsepower motor operations continued to experience soft demand from their segments of the consumer products markets.

1980 Compared to 1979

1980 sales were $1.52 billion, an increase of 10.0% over the $1.38 billion of 1979. Pretax income for 1980 rose to $193.2 million, a 16.1% increase, as pretax margins expanded to 12.7% from 12.0% in 1979. Net income increased to $104.2 million in 1980, representing a gain of 18.7%.

Cost of sales and operating expenses in 1980 totaling $1.04 billion represented an increase of 9.8% from the 1979 amount but, as a percentage of sales, dropped slightly to 68.5% from 68.6% in the prior year.

Selling, general and administrative expenses advanced from $261.5 million in 1979 to $282.1 million in 1980, a rise of

7.9%. As a percent of sales, however, such costs declined from 18.9% in 1979 to 18.5% in 1980.

Interest income rose from $6.4 million to $10.3 million, due to higher interest rates and higher average balances of cash and short-term investments. Interest expense also increased, rising to $14.7 million, 18.4% more than 1979, primarily reflecting higher interest rates.

Income tax expense in 1980 increased 13.2% to $89.0 million because of greater taxable income. The effective tax rate declined from the year-earlier level of 47.2% to 46.1% in 1980 as a result of certain income items subject to the lower capital gains tax rate, various foreign items taxed at lower rates, DISC benefits and the favorable effect of translating foreign currency financial statements, which was not taxable.

Product Group Review

Sales of the *energy control group* increased by approximately $99.4 million to $718.2 million, a 16.1% gain over those of 1979. Of this, $28.5 million represented the revenues of two acquisitions in 1980 accounted for as poolings of interests for which prior-year financial statements were not restated. Sales growth within the group was mixed, with those operations involved in the semiconductor capital equipment, electrical heat processing, voltage regulation and telecommunications sectors as well as certain foreign operations posting strong increases, while operations most closely tied to construction markets experienced some weakness in shipments. Shipments in 1980 for the group were adversely affected by a strike at Leeds & Northrup which lasted three months. Pretax income of the group rose to $93.3 million, an increase of 44.2% over 1979, with $7.3 million of 1980 pretax income attributable to the two acquisitions referred to above. Pretax margins expanded to 13.0% from 10.5% a year ago.

The *fluid process control group* showed a sales gain of 13.0% to $429.1 million from $379.8 million in 1979. Sales to industrial process control markets provided most of the group's growth, with the municipal water and wastewater markets showing only modest improvement. Pretax income increased to $44.3 million from $39.3 million, a gain of 12.7%, and pretax margins remained unchanged from the 1979 level of 10.3%.

Sales of the *transportation control group* of $307.0 million were essentially unchanged from those of the prior year. Shipments of systems and control equipment to mainline railroads and mass transit markets, which accounted for approximately 65% of the group's sales, were up modestly from the year-ago level. Increased shipments recorded by units serving the air traffic and marine control markets were offset by declines in sales of cold-forged components to the automotive market and hydraulic controls to the construction equipment market. Pretax income for the group declined by 2.3% to $54.5 million. Pretax margins, the highest for any group of the Company, equaled 17.8%, down from the record level of 18.2% in 1979.

The *consumer products group* was the hardest hit by the weak economy in 1980. Sales were down 13.4% to $67.4 million from $77.8 million in 1979. Pretax margins declined, reflecting difficulty in increasing prices sufficiently to offset higher costs. As a result of this and the lower sales, pretax income for the year was $1.1 million as compared to $6.6 million in 1979.

1979 Compared to 1978

Sales in 1979 reached a level of $1.38 billion, up 31.3% from the year-earlier level of $1.05 billion. Net income rose 41.9% to $87.8 million, up from $61.9 million in the prior year. Earnings per share of $3.52 were 24.8% higher than the $2.82 in 1978. The large percentage increases in sales and net income were partially due to the inclusion of Leeds & Northrup for all four quarters of 1979, as compared with only the last quarter of 1978. However, the earnings per share data, reflecting the additional shares issued for Leeds & Northrup, give a reasonable year-to-year comparison.

Cost of sales and operating expenses in 1979 increased by $221.5 million to $949.1 million, including the effect of a change to the last-in, first-out (LIFO) method of valuing certain domestic inventories in 1979, but as a percentage of sales, declined slightly to 68.6%, continuing a trend of improving operating margins from a 1976 level of 71.5%. Margin improvements have resulted from various management programs, including capital investments, cost-reduction efforts, introduction of new products and a more favorable product mix.

Selling, general and administrative expenses, which increased to $261.5 million, represented 18.9% of sales in both 1979 and 1978.

Interest expense rose approximately $3.0 million in 1979 to a level of $12.4 million. The increase was due to higher debt (average short-term borrowings of approximately $32 million in 1979 versus $25 million in 1978) and higher average rates on such borrowings. Interest income also increased, moving up to $6.4 million from $4.9 million in 1978.

Income tax expense increased 29.7% to $78.6 million because of higher taxable income, although the effective tax rate decreased to 47.2% in 1979 from 49.5% in 1978, primarily as a result of the decrease in the U.S. statutory rate from 48% to 46% in 1979.

Product Group Review

The *energy control group* showed the greatest improvement in sales, advancing $227.7 million to $618.8 million. A large portion of the group's dollar gain, however, can be attributed to the inclusion of Leeds & Northrup's sales for a full year in 1979, whereas in 1978, when Leeds & Northrup was acquired and accounted for on a purchase basis, its results were included for only the fourth quarter. Sales of each of this group's major market segments, electric and communications utilities and electric construction and process industries, improved over 1978. Pretax income of the group increased to $64.7 million from $37.2 million in 1978, a gain of 73.9%.

The *fluid process control group* increased sales 10.3% over 1978 levels to $379.8 million. Pretax earnings declined by 8.4% to $39.3 million from $42.9 million in 1978. In addition to the impact of the adoption of LIFO accounting, the group's performance was adversely affected by the low level of activity in one of its important markets—municipal water and wastewater treatment. This produced a squeeze on profitability as inflationary cost pressures could not be offset sufficiently by increased prices in a more competitive environment.

Sales of the *transportation control group* rose to $306.7 million, 17.4% above 1978's level of $261.3 million. Pretax earnings rose 51.6% to $55.8 million from $36.8 million in 1978. The rate of gain in profits exceeded that of sales, reflecting favorable shifts in product mix and the operation of several facilities at or near capacity, primarily in braking equipment for freight cars.

The *consumer products group* increased sales 36.5% to $77.8 million from the 1978 level of $57.0 million. Pretax earnings rose 17.9% to $6.6 million from $5.6 million in 1978. Pacing the group's results in 1979 were Canadian appliance operations and units manufacturing fractional horsepower motors.

Sources of Capital

General Signal has traditionally maintained a strong balance sheet. The effective utilization of financial assets combined with a solid equity base and a low percentage of debt to equity are key elements in the management of its business. The Company relies principally on the cash flow generated by its operations to finance expansion of its business, including additions to plant and equipment and working capital, and to pay dividends.

From time to time, long-term debt may be incurred to supplement operating sources, particularly for plant expansions. In the two-year period ended December 31, 1981, the Company increased its long-term borrowings by adding $14.3 million of Industrial Revenue Bonds. During 1981 the Company repurchased $6.3 million of its 8⅞% Sinking Fund Debentures. The amount repurchased will satisfy the sinking fund requirements for 1985, 1986 and part of 1987. As a result of these transactions, and scheduled principal repayments of various other debt issues, total long-term debt increased only slightly from $81.1 million at December 31, 1979 to $83.8 million at the end of 1981. Long-term debt as a percentage of total capital equaled 10.0% at the end of 1981, as compared with 12.3% at the end of 1979.

Short-term borrowings decreased to $28.7 million at December 31, 1981, from $43.0 million a year earlier. Most of the decrease is attributable to reduced borrowings of foreign subsidiaries for working capital requirements. To assure financial flexibility, the Company maintains credit facilities with various banks in the U.S. and abroad, totaling approximately $167.0 million. At December 31, 1981 there were $13.0 million in borrowings outstanding against these facilities.

Employment of Capital

General Signal actively pursues opportunities for growth with the objective of increasing its earnings per share at a rate exceeding the rate of inflation by 5 to 10% on average, thereby achieving real growth within the Company. In striving for that growth, the Company has implemented cost-reduction and productivity improvement programs, promoted new product development, acquired a number of companies which enhance its position in several key markets and sought to improve its financial strength through effective asset management.

Additions to Plant and Equipment

Spending for new plant and equipment has grown from $42.0 million in 1979 to $48.8 million in 1980, and to $57.3 million in 1981, not including assets of acquired companies. Capital spending in the near future is expected to grow at a rate consistent with or above the trend of the last few years. It is anticipated that these expenditures will be financed primarily from operations.

Financial Results by Quarter

(in thousands)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
Net sales	**$421,552**	$378,049	**$435,410**	$384,573	**$410,546**	$364,211	**$434,947**	$394,911
Gross profit	**132,469**	121,361	**138,193**	120,634	**128,445**	113,097	**143,632**	124,649
Net earnings	**28,701**	24,276	**28,613**	25,686	**27,319**	24,331	**32,499**	29,921
Earnings per share	**$1.05**	$.95	**$1.02**	$1.01	**$.99**	$.92	**$1.17**	$1.13

Acquisitions

The following is a summary of the more significant acquisitions since 1976:

		Consideration	
Name of Company	Year Acquired	Shares of Common Stock	Cash
Sola Basic Industries, Inc.	1977	3,983,000	
Leeds & Northrup Company	1978	3,602,000	$52.1 million
Voorlas Manufacturing Co., Inc.	1979	200,000	
Xynetics, Inc.	1980	1,340,000	
Kayex Corporation	1980	1,004,000	
Telecommunications Technology, Inc.	1980	317,000	
Stock Equipment Company	1980	150,000	$34.0 million
Blue M Electric Company	1981	670,000	
Micro Automation, Inc.	1981	171,000	

In addition, the Company purchased the assets and assumed certain liabilities of the specialty valve division of Tapco International, Inc. in 1980 for $8.8 million in cash.

Dividends

Dividends paid in 1981 of $1.48 per share totaled $40.5 million, compared to $1.28 per share and $31.7 million in 1980 and $1.00 per share and $23.6 million in 1979. The increased payments include the effect of a higher per share dividend rate and increases in the number of shares outstanding. Dividends paid since 1976 have grown at an average annual compound rate of 29%. There are no significant restrictions on the payment of dividends.

Dividends Paid	**1981**	1980
1st Quarter	**$ .37**	$ .32
2nd Quarter	**.37**	.32
3rd Quarter	**.37**	.32
4th Quarter	**.37**	.32
Year	**$1.48**	$1.28

Working Capital

The Company attempts to maintain its investment in working capital at the lowest level consistent with its goals for corporate growth. Cash and marketable securities, which at December 31, 1981 totaled $94.0 million, are managed to attain the highest yields available commensurate with safety and liquidity considerations. Programs to optimize the Company's investment in receivables and inventory are monitored closely.

Stockholders' Equity

At year-end 1981, stockholders' equity was $753.2 million, as compared with $661.7 million in 1980. Return on average stockholders' equity rose from 13.4% to 16.6% over the six-year period from 1976 to 1981, while book value per share increased from $15.45 to $27.17 over the same period.

Common Stock

The Company's common stock is listed on the New York and Pacific stock exchanges under the symbol GSX. There were approximately 19,185 holders of record of the Company's common stock at year-end 1981.

Market Price Range of Common Stock

	1981	
	High	Low
1st Quarter	$49¼	$41⅛
2nd Quarter	51⅜	44¼
3rd Quarter	45½	33⅜
4th Quarter	39½	33½
	1980	
	High	Low
1st Quarter	$ 39¾	$ 28¼
2nd Quarter	36½	30⅞
3rd Quarter	46¾	32¼
4th Quarter	54¼	42¼

FINANCIAL SUMMARY

General Signal Corporation and Consolidated Subsidiaries
(in thousands)

Years Ended December 31,	**1981**	1980	1979	1978	1977	1976
Operating data						
Net sales	**$1,702,455**	$1,521,744	$1,383,073	$1,053,729	$892,222	$813,073
Costs and expenses:						
Cost of sales and operating expenses	**1,159,716**	1,042,003	949,107	727,643	621,992	581,508
Selling, general and administrative expenses	**319,548**	282,146	261,480	199,093	168,832	147,621
	1,479,264	1,324,149	1,210,587	926,736	790,824	729,129
Operating earnings	**223,191**	197,595	172,486	126,993	101,398	83,944
Interest income	**11,267**	10,276	6,350	4,879	4,069	2,004
Interest expense	**(15,605)**	(14,697)	(12,414)	(9,381)	(7,033)	(6,542)
Earnings before income taxes	**218,853**	193,174	166,422	122,491	98,434	79,406
Net earnings	**$ 117,132**	$ 104,214	$ 87,801	$ 61,890	$ 49,013	$ 40,847
Earnings per average share	**$4.23**	$4.01	$3.52	$2.82	$2.35	$1.97
Average common shares outstanding	**27,694**	26,009	24,937	21,936	20,850	20,725
Dividends paid per share	**$1.48**	$1.28	$1.00	$.85	$.60	$.42
Balance sheet data						
Working capital	**$ 489,381**	$ 427,564	$ 384,153	$ 339,070	$276,616	$248,952
Current ratio	**2.4**	2.2	2.2	2.3	2.5	2.7
Capital expenditures	**57,314**	48,829	41,959	33,536	22,230	22,085
Depreciation	**30,905**	26,740	23,428	18,596	14,744	13,854
Total assets	**1,222,840**	1,136,277	998,124	873,679	617,503	545,485
Long-term debt	**83,849**	79,367	81,102	83,784	54,053	55,320
Stockholders' equity	**753,152**	661,731	576,021	507,012	355,677	321,536
Return on average stockholders' equity	**16.6%**	16.8%	16.2%	15.4%	14.5%	13.4%
Book value per share	**$27.17**	$24.78	$22.94	$20.54	$17.05	$15.45

PRODUCT GROUP REVIEW

General Signal Corporation and Consolidated Subsidiaries
(in thousands)

Years Ended December 31,	**1981**	1980	1979	1978	1977	1976
Net sales						
Energy control	**$ 829,100**	$ 718,200	$ 618,800	$ 391,100	$294,000	$275,000
Fluid process control	**483,600**	429,100	379,800	344,300	318,600	306,800
Transportation control	**306,700**	307,000	306,700	261,300	228,200	183,900
Consumer products	**83,100**	67,400	77,800	57,000	51,400	47,400
Total	**$1,702,500**	$1,521,700	$1,383,100	$1,053,700	$892,200	$813,100
Earnings before income taxes						
Energy control	**$ 111,100**	$ 93,300	$ 64,700	$ 37,200	$ 23,900	$ 21,700
Fluid process control	**61,400**	44,300	39,300	42,900	40,100	38,700
Transportation control	**39,300**	54,500	55,800	36,800	30,800	19,400
Consumer products	**7,100**	1,100	6,600	5,600	3,600	(400)
Total	**$ 218,900**	$ 193,200	$ 166,400	$ 122,500	$ 98,400	$ 79,400

BALANCE SHEET

General Signal Corporation and Consolidated Subsidiaries
(dollars in thousands)

ASSETS	December 31, 1981	1980
Current assets:		
Cash including cash equivalents—1981, $39,300; 1980, $23,705	$ 42,156	$ 35,996
Short-term investments, at cost, which approximates market	51,820	49,200
Accounts receivable, less allowance—1981, $7,628; 1980, $6,744	311,804	290,086
Contracts in progress (note 4)	39,752	33,556
Inventories (note 2):		
Finished goods	86,838	97,455
Work in process	153,246	127,600
Raw materials and purchased parts	145,300	142,303
	385,384	367,358
Prepaid expenses	4,257	5,052
Total current assets	835,173	781,248
Property, plant and equipment, at cost:		
Land	13,712	12,605
Buildings and leasehold improvements	140,578	129,056
Machinery and equipment	278,207	246,150
	432,497	387,811
Less accumulated depreciation and amortization	156,837	137,826
Net property, plant and equipment	275,660	249,985
Intangibles, net of accumulated amortization—1981, $11,074; 1980, $7,341 (note 12)	86,938	84,758
Other assets	25,069	20,286
	$1,222,840	$1,136,277

LIABILITIES AND STOCKHOLDERS' EQUITY	1981	1980
Current liabilities:		
Short-term borrowings (note 6)	$ 28,667	$ 42,972
Note payable for acquired company (note 3)	—	32,905
Accounts payable (note 4)	123,518	106,380
Accrued expenses (note 12)	111,401	106,528
Income taxes (note 5)	82,206	64,899
Total current liabilities	345,792	353,684
Long-term debt (note 6)	83,849	79,367
Deferred income taxes	8,414	9,412
Other liabilities	31,633	32,083
Contingencies and commitments (note 11)	—	—
Total liabilities	469,688	474,546
Stockholders' equity (notes 7-10):		
Common stock, par value $1 per share: Authorized 75,000,000 shares in 1981, 50,000,000 in 1980; issued 27,763,000 in 1981, 26,744,000 in 1980	38,875	37,856
Additional paid-in capital	188,431	184,331
Retained earnings	526,197	439,800
	753,503	661,987
Less common stock in treasury, 41,000 shares in 1981, 39,000 in 1980, at cost	351	256
Total stockholders' equity	753,152	661,731
	$1,222,840	$1,136,277

See accompanying notes to financial statements.

STATEMENT OF EARNINGS

General Signal Corporation and Consolidated Subsidiaries
(in thousands)

Years Ended December 31,	**1981**	1980	1979
Net sales	**$1,702,455**	$1,521,744	$1,383,073
Costs and expenses:			
Cost of sales and operating expenses	**1,159,716**	1,042,003	949,107
Selling, general and administrative expenses	**319,548**	282,146	261,480
	1,479,264	1,324,149	1,210,587
Operating earnings	**223,191**	197,595	172,486
Interest income	**11,267**	10,276	6,350
Interest expense	**(15,605)**	(14,697)	(12,414)
Earnings before income taxes	**218,853**	193,174	166,422
Provision for income taxes (note 5)	**101,721**	88,960	78,621
Net earnings	**$ 117,132**	$ 104,214	$ 87,801
Earnings per average share of common stock	**$4.23**	$4.01	$3.52

STATEMENT OF STOCKHOLDERS' EQUITY

General Signal Corporation and Consolidated Subsidiaries
(in thousands)

Years Ended December 31, 1981, 1980 and 1979	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Common Stock In Treasury**
Balance at December 31, 1978	$35,836	$173,819	$297,620	$(262)
Net earnings	—	—	87,801	—
Dividends declared	—	—	(25,342)	—
Exercise of stock options (note 10)	119	1,603	—	—
Issuance of common stock in connection with acquisitions (note 3)	282	159	4,068	—
Transactions in treasury stock (note 7)	—	—	—	11
Other	29	278	—	—
Balance at December 31, 1979	$36,266	$175,859	$364,147	$(251)
Net earnings	—	—	104,214	—
Dividends declared	—	—	(33,963)	—
Exercise of stock options (note 10)	75	1,093	—	—
Issuance of common stock in connection with acquisitions (note 3)	1,471	7,060	5,402	—
Transactions in treasury stock (note 7)	—	—	—	(5)
Other	44	319	—	—
Balance at December 31, 1980	$37,856	$184,331	$439,800	$(256)
Net earnings	—	—	117,132	—
Dividends declared	—	—	(41,765)	—
Exercise of stock options (note 10)	89	2,644	—	(100)
Issuance of common stock in connection with acquisitions (note 3)	930	1,241	11,030	—
Transactions in treasury stock (note 7)	—	—	—	5
Other	—	215	—	—
Balance at December 31, 1981	**$38,875**	**$188,431**	**$526,197**	**$(351)**

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

General Signal Corporation and Consolidated Subsidiaries
(in thousands)

Years Ended December 31,	**1981**	1980	1979
Resources provided:			
Resources provided by operations:			
Net earnings	**$117,132**	$104,214	$ 87,801
Items not requiring current outlay of working capital, principally depreciation and amortization	**31,019**	30,558	26,639
Total resources provided by operations	**148,151**	134,772	114,440
Common stock issued for acquired companies	**2,171**	8,531	—
Increase in long-term debt	**15,199**	4,327	—
Sale and retirement of property, plant and equipment	**3,469**	3,302	2,228
Reclassification of liabilities to non-current	**—**	5,759	—
Retained earnings of pooled acquisitions for which prior periods are not restated	**11,030**	5,402	4,068
Other	**4,367**	6,586	2,399
Total resources provided	**$184,387**	$168,679	$123,135
Resources applied:			
Additions to property, plant and equipment:			
Capital expenditures	**$ 57,314**	$ 48,829	$ 41,959
Net fixed assets of acquired companies	**4,154**	17,576	1,941
Excess of cost over net assets acquired	**3,090**	16,782	—
Dividends declared	**41,765**	33,963	25,342
Decrease in long-term debt	**10,717**	6,062	2,607
Other	**5,530**	2,056	6,203
Increase in working capital	**61,817**	43,411	45,083
Total resources applied	**$184,387**	$168,679	$123,135
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash and cash equivalents	**$ 6,160**	$ 4,243	$(15,585)
Short-term investments	**2,620**	3,940	40,298
Accounts receivable	**21,718**	36,082	28,871
Contracts in progress	**6,196**	9,454	7,606
Inventories	**18,026**	36,149	39,935
Prepaid expenses	**(795)**	(1,813)	1,033
	53,925	88,055	102,158
Decrease (increase) in current liabilities:			
Short-term borrowings	**14,305**	(1,929)	(12,247)
Note payable for acquired company	**32,905**	(32,905)	—
Accounts payable	**(17,138)**	(3,613)	(20,933)
Accrued expenses	**(4,873)**	3,548	(14,085)
Income taxes	**(17,307)**	(9,745)	(9,810)
	7,892	(44,644)	(57,075)
Increase in working capital	**$ 61,817**	$ 43,411	$ 45,083

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

General Signal Corporation and Consolidated Subsidiaries
(dollars in thousands)
Years Ended December 31, 1981, 1980 and 1979

1. Summary of significant accounting policies and related matters

Consolidation and related matters

The financial statements include the accounts of General Signal Corporation and its foreign and domestic subsidiaries (the Company). Investments in certain minor foreign subsidiaries, as well as 50-percent-or-less owned companies, are stated at cost plus equity in undistributed earnings since acquisition. All significant intercompany transactions have been eliminated.

Certain reclassifications have been made in the 1980 and 1979 financial statements to conform to the 1981 presentation.

Foreign Currency Translation

Current assets (other than inventory) and essentially all liabilities of foreign operations are translated into U.S. dollars at the exchange rate in effect at the end of the fiscal year. All other assets (principally inventory and fixed assets) are translated using the exchange rates existing at the time of the related transactions. Results of operations are translated using average rates for the period, adjusted to include the effect of translating inventory disposition and fixed asset depreciation at historical rates.

Inventories

Inventories are stated at the lower of cost or market. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) method (note 2). Cost for the remaining inventories is based on standard costs that approximate average costs.

Depreciation and amortization

The Company provides for depreciation of plant and equipment using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease or the estimated useful life, whichever is less.

Maintenance and repairs

Costs of maintenance and repairs are charged to operations. Costs of renewals and betterments, where significant in amount, are capitalized and deductions are made for retirements resulting from the renewals or betterments. Any gain or loss on the sale or disposition of such assets is credited or charged to earnings.

Intangibles

Intangible assets comprise primarily the excess of cost over net assets acquired and are being amortized on a straight-line basis over periods not exceeding 40 years.

Revenue recognition

The percentage of completion method of accounting is followed for most long-term contracts. Under this method, earnings accrue monthly as the work progresses toward completion. All other revenues are recognized at the time of shipment.

Research and development

Research and development expenditures are charged to operations as incurred.

Income taxes

Investment tax credits are included in net income as a reduction of the provision for income taxes in the period in which they are allowed for tax purposes.

Income taxes are not provided for on the undistributed earnings of certain consolidated and non-consolidated affiliates since future investment requirements are expected to be in excess of these earnings. However, if such undistributed earnings were remitted to the Company, the applicable income taxes would not be significant.

Earnings per share

Earnings per share of common stock are calculated by dividing net earnings by the average number of common shares outstanding (27,694,000 shares in 1981, 26,009,000 shares in 1980 and 24,937,000 shares in 1979).

Dilution as a result of options outstanding and shares issuable in connection with incentive compensation is not significant.

2. Inventories

LIFO inventories amounted to approximately $140,416 and $139,100 at December 31, 1981 and 1980, respectively. During each year in the three-year period ended December 31, 1981 certain LIFO inventory quantities were reduced, resulting in a liquidation of items carried at lower costs prevailing in prior years; the effect on net income was not significant in any year. FIFO cost, which approximates current cost, exceeded LIFO cost by approximately $29,659 at December 31, 1981 and $22,483 at December 31, 1980.

3. Acquisitions

Poolings of interest

In April 1980, the Company acquired Xynetics, Inc. ("Xynetics") through the exchange of approximately 1,340,000 shares of its common stock for all the outstanding common and preferred shares of Xynetics. Xynetics is a manufacturer of microprocessor-based semiconductor fabrication systems and equipment. The merger was accounted for as a pooling of interests; accordingly, the 1979 financial statements were restated to include the

accounts of Xynetics. Other companies acquired in exchange for shares of the Company's common stock include:

Company	Principal Business	Acquired	Shares of Common Stock Issued
Spitfire, Inc.	Wafer polishing equipment	May 1981	65,000
Micro Automation, Inc.	Wafer handling systems	April 1981	171,000
Blue M Electric Company	Industrial and scientific process chambers	March 1981	670,000
Kelly Pump, Inc.	Distributor	March 1981	24,000
Telecommunications Technology, Inc.	Electronic test equipment for telecommunications systems	Dec. 1980	317,000
Kayex Corporation	Proprietary equipment for the semiconductor industry	Aug. 1980	1,004,000
Voorlas Manufacturing Co., Inc.	Fractional horsepower motors	July 1979	200,000
Hy-Cal Engineering	Engineering products	March 1979	82,000

Revenues and net income of these companies for the periods prior to consummation of the acquisition are not material individually or in the aggregate in relation to the Company's consolidated results; accordingly, prior years' financial statements have not been restated.

Purchases

In December 1980, the Company acquired Stock Equipment Company for cash and 150,000 shares of the Company's common stock with a total value of approximately $40,000, of which $32,905 represents the note payable for the acquired company at December 31, 1980 and paid on January 5, 1981. Stock Equipment is a leading manufacturer of coal-handling equipment for electric generating plants. The Company's results of operations include those of Stock Equipment for the month of December 1980, and for subsequent periods.

The following pro forma summary combines the Company's results of operation with those of Stock Equipment as if the acquisition had taken place on January 1, 1979 and takes into account adjustments for amortization of the excess of cost over net assets acquired, depreciation resulting from the revaluation of certain assets and interest on the cash used in the acquisition.

Years Ended December 31,	1980	1979
Net sales	$1,552,368	$1,414,365
Net earnings	105,951	89,959
Earnings per share	$4.05	$3.59

In addition, the Company purchased the assets and assumed certain liabilities of the specialty valve division of Tapco International, Inc. in November 1980 for approximately $8,800 in cash.

4. Contracts in progress

Contracts in progress, which represents revenue recognized on a percentage of completion basis in excess of related progress billings of $146,911 and $73,112 at December 31, 1981 and 1980, respectively, are billed when designated events occur. Substantially all contracts in progress at year end are billed during the subsequent year. In those situations where progress billings exceed revenues recognized, the excess, which amounted to $15,270 and $8,167 at December 31, 1981 and 1980, respectively, is included in accounts payable.

5. Income taxes

The Company's earnings before taxes and the applicable components of the provision for income taxes are as follows:

Earnings before taxes	**1981**	1980	1979
Domestic	**$197,019**	$165,189	$147,782
Foreign	**21,834**	27,985	18,640
Total	**$218,853**	$193,174	$166,422

Provision for taxes	**1981**	1980	1979
Current:			
Federal	**$ 71,040**	$ 58,056	$ 54,137
Foreign	**14,097**	12,066	7,420
State & Local	**10,932**	9,531	9,463
	96,069	79,653	71,020
Deferred:			
Federal	**5,079**	7,804	5,869
Foreign	**(1,313)**	(154)	808
State & Local	**1,886**	1,657	924
	5,652	9,307	7,601
Total	**$101,721**	$ 88,960	$ 78,621

Deferred income taxes result from the use of different accounting methods for financial statement and tax purposes. Use of

the percentage of completion method for contract accounting in the financial statements and completed contract accounting for tax purposes resulted in deferred Federal tax provisions as follows: 1981–$6,876, 1980–$4,328, and 1979–$3,244. Other items where financial and tax accounting methods differed, none of which resulted in deferred taxes in excess of five percent of the computed tax at the statutory rate, include depreciation and deferred compensation. Current deferred tax liabilities, which are included in income taxes in the accompanying balance sheet, amounted to $25,390 and $18,740 at December 31, 1981 and 1980, respectively.

A reconciliation of the provision for income taxes to the Federal statutory rate follows:

	1981	1980	1979
As computed at the Federal statutory rate (46%)	**$100,672**	$ 88,860	$ 76,554
State and local taxes, net of Federal benefit	**6,922**	6,042	5,609
All other items, none of which exceeds 5% of the computed tax	**(5,873)**	(5,942)	(3,542)
Total	**$101,721**	$ 88,960	$ 78,621

6. Long-term debt and short-term borrowings

Long-term debt consists of:

December 31,	1981	1980
8⅞% Sinking Fund Debentures due 1999 with annual sinking fund payments of $2,700 commencing in 1985	**$33,730**	$40,000
5⅝%-8% Industrial Revenue Bonds due 1984-2004; no stipulated principal repayments prior to maturity	**20,800**	12,500
Variable rate Industrial Revenue Bonds, rate adjusted to equal 60% of the prime rate, due 1983-1984; no stipulated principal repayments prior to maturity	**4,750**	—
10¾% Notes due 1991 with annual payments of $1,250	**12,500**	13,750
9¾% Notes due 1990 with annual payments of $769	**6,923**	7,693
5⅜% Notes due 1985 with annual payments of $300	**1,200**	1,500
Other long-term borrowings	**7,943**	8,193
	87,846	83,636
Less current maturities included in short-term borrowings	**3,997**	4,269
	$83,849	$79,367

During 1981, the Company repurchased $6,270 of its 8⅞% Sinking Fund Debentures. This amount will satisfy the sinking fund requirements for 1985, 1986 and part of 1987.

The lending agreements contain various restrictions as to maintenance of financial ratios, sinking fund requirements, prepayments and payment of dividends, among others. Such dividend restrictions, however, are not significant in relation to the current dividend rate or to any increases in such rate which might be anticipated.

Maturities of long-term debt during the five years subsequent to December 31, 1981 are as follows: 1982—$3,997; 1983—$5,287; 1984—$11,054; 1985—$2,647; 1986—$2,068.

Short-term borrowings

There are no significant agreements between the Company and its banks, either in writing or otherwise, to maintain compensating balances which would constitute support for existing borrowing arrangements, including both outstanding borrowings and the assurance of future credit availability. However, it is the Company's internal financial policy to maintain balances sufficient in the Company's judgment to have credit available as may be required.

The Company has established credit facilities with various banks in the United States and abroad. Such facilities are denominated in the local currency, and aggregated approximately $167,000 and $155,000 at December 31, 1981 and 1980, respectively. The terms of the borrowing arrangements include interest principally at rates equal to those charged prime customers of the banks. The amount of unused available borrowings under the credit facilities was approximately $154,000 and $119,000 at December 31, 1981 and 1980, respectively. Included in the facilities are lines of credit and a $60,000 revolving credit agreement ($40,000 in 1980) which permits issuance of either domestic or Eurodollar short-term notes through October 31, 1984, convertible thereafter to two-year term loans. The agreement provides for a commitment fee of ¼ of 1% per annum of the unused portion of the facility. The remaining facilities expire at various dates in 1982 and 1983 but can be withdrawn at any time at the option of the banks.

The average amount of short-term debt outstanding during 1981 was approximately $37,000 ($40,000 in 1980; $32,000 in 1979) with a related weighted average interest rate of approximately 20% (16% in 1980; 13% in 1979). The weighted average interest rate is determined on the basis of actual interest expense for the periods divided by the average outstanding borrowings. The maximum amount of short-term borrowings at any month end was $41,502 during 1981, $44,240 in 1980 and $36,729 in 1979. The weighted average interest rate on short-term borrowings included in the balance sheet at December 31, 1981 was approximately 20% and at December 31, 1980 and 1979 was approximately 16% and 15%, respectively.

7. Capital stock

Common stock

On April 21, 1969, the par value of the Company's common stock was changed from $6.67 to $1.00. The common shares outstanding (1,959,559) at April 18, 1969 are carried at a stated value of $6.67 per share, aggregating $13,070, while shares issued subsequent to that date are carried at the par value of $1.00 per share.

A shareholders' vote on April 16, 1981 increased the authorized shares of common stock from 50,000,000 to 75,000,000.

Preferred stock

On April 16, 1981 the shareholders also voted to increase the authorized preferred shares from 2,000,000 to 10,000,000, and to decrease the par value from $5.00 per share to $1.00 per share. All preferred shares are unissued.

Treasury stock

Treasury stock transactions for the three years ended December 31, 1981 were:

Number of shares	**1981**	1980	1979
Beginning of year	**39,370**	39,958	42,025
Common stock acquired	**2,205***	414	—
Common stock issued to employees of acquired companies	**—**	(525)	(1,575)
Common stock issued under the Company's Incentive Compensation Plan	**(817)**	(477)	(492)
End of year	**40,758**	39,370	39,958

*Consists primarily of appreciated shares exchanged for new shares issued under the Company's stock option plan.

8. Employee benefit plans

The Company has in effect a number of pension plans for salaried and hourly paid employees. Costs of the plans charged to operations, including amortization of the past service costs over periods not exceeding 30 years, amounted to $19,334 in 1981, $18,284 in 1980 and $16,309 in 1979. The Company's policy is to fund accrued pension costs.

At January 1, 1980, the date of the most recent actuarial valuation, using an assumed discount rate of 7%, the actuarial present value of accumulated benefits for the principal plans was $167,478, which includes $155,947 of vested benefits. The market value of net assets available for these plan benefits on January 1, 1980 was approximately $150,442. Comparable data for January 1, 1981 are not available as the actuarial valuations are performed biennially.

The Company has Savings and Stock Ownership Plans for certain eligible employees. Under the Plans, the Company makes regular contributions equal to a fixed percentage of certain defined amounts contributed by employees. Company contributions amounting to $3,972 in 1981, $3,480 in 1980 and $2,888 in 1979 were invested in shares of the Company's common stock. At December 31, 1981, there were 303,735 shares of common stock reserved for issuance under the plans.

9. Incentive compensation plan

The Company's incentive compensation plan provides for awards to officers and key employees in cash, common stock of the Company, or both. Payment of such awards may be made currently or deferred. The stockholder-approved plan limits the total amount which can be provided in any one year to 10% of the amount by which net earnings (as defined in the plan) exceed 5% of average capital investment (as defined in the plan) during the year. The amounts charged to earnings were $4,620 in 1981, $5,425 in 1980 and $7,020 in 1979. At December 31, 1981, a total of 35,661 shares of common stock were issuable as deferred compensation.

10. Stock option plans

Under a stock option plan approved by stockholders in 1971 and amended in 1975 and 1979, options were granted to key employees to purchase shares of the Company's common stock. This plan terminated on February 1, 1981, except as to outstanding options.

On April 16, 1981 the stockholders approved a new stock option plan. This 1981 plan provides that options may be granted to key employees to purchase a maximum of 800,000 shares of the Company's common stock. Options granted under this plan include Incentive Stock Options as defined by the Economic Recovery Tax Act of 1981. The option price for the shares covered by each option is the fair market value on the date such option is granted. The 1981 plan will terminate on April 16, 1986, except as to outstanding options. At December 31, 1981, there were 1,324,725 shares of common stock reserved for issuance under both plans.

The following table summarizes option activity for the three years ended December 31, 1981:

	1981	1980	1979
Shares under option at January 1,			
At prices ranging from $10.00 to $47.90	**580,450**	471,427	585,102
Options granted:			
At prices ranging from $26.75 to $48.65	**205,150**	180,400	4,900
Options exercised:			
At prices ranging from $13.45 to $34.25	**(40,601)**	(34,863)	(46,982)
Options terminated	**(19,124)**	(36,514)	(71,593)
Shares under option at December 31,			
At prices ranging from $10.00 to $48.65	**725,875**	580,450	471,427
Shares exercisable at December 31,			
At prices ranging from $10.00 to $47.90	**464,675**	359,637	345,504

The exercise of options assumed in connection with acquisitions resulted in additional shares being issued as follows: 1981–47,761; 1980–41,020; 1979–71,962. At December 31, 1981, 113,920 shares of common stock were reserved in connection with these assumed options. These shares are exercisable at prices ranging from $4.41 to $22.38.

11. Contingencies and commitments

Litigation

The Company and its subsidiaries are defendants in various legal proceedings, the ultimate liability in respect of which cannot be determined at this time. The Company is of the opinion that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect upon the Company's financial position.

Leases

The following is a schedule of the future minimum rental payments under leases having initial or remaining non-cancelable terms in excess of one year at December 31, 1981:

Year Ending December 31,	Amount
1982	$13,180
1983	10,413
1984	7,914
1985	5,525
1986	3,462
Subsequent	7,821
Total minimum payments	$48,315

Total rent expense in 1981, 1980 and 1979 was $20,187, $17,334 and $14,280, respectively.

12. Supplementary information

Balance Sheet December 31,	**1981**	1980
Intangibles:		
Excess of cost over net assets acquired	**$ 90,808**	$ 89,833
Other intangibles	**7,204**	2,266
	$ 98,012	$ 92,099
Accrued expenses:		
Payrolls and compensation	**$ 28,340**	$ 26,999
Taxes other than income taxes	**5,164**	4,757
Pension and profit sharing	**20,700**	19,520
Other accrued expenses	**57,197**	55,252
	$111,401	$106,528
Net assets of foreign operations	**$ 84,844**	$ 80,305

Statement of Earnings Years ended December 31,	**1981**	1980	1979
Maintenance and repairs	**$19,964**	$18,539	$19,539
Research and development	**63,621**	51,039	44,483
Advertising expense	**16,138**	14,343	14,610
Royalty income	**3,981**	4,711	3,745

13. Business segment information

Product groups	1981	1980	1979	1978	1977	1976
Net sales:						
Energy control	**$ 829,061**	$ 718,227	$ 618,832	$ 391,070	$ 293,988	$ 274,948
Fluid process control	**483,610**	429,075	379,777	344,289	318,572	306,840
Transportation control	**306,648**	306,966	306,640	261,316	228,280	183,924
Consumer products	**83,136**	67,476	77,824	57,054	51,382	47,362
	$1,702,455	$1,521,744	$1,383,073	$1,053,729	$ 892,222	$ 813,074
Operating income:						
Energy control	**$ 125,528**	$ 105,602	$ 75,102	$ 43,327	$ 30,620	$ 28,478
Fluid process control	**68,601**	51,718	47,057	50,659	47,452	44,853
Transportation control	**41,124**	57,164	58,781	40,033	33,301	22,443
Consumer products	**8,327**	2,986	8,848	7,315	4,592	967
	243,580	217,470	189,788	141,334	115,965	96,741
Equity income	**2,621**	1,553	1,974	1,972	1,241	519
Interest income	**11,267**	10,276	6,350	4,879	4,069	2,004
Interest expense	**(15,605)**	(14,697)	(12,414)	(9,381)	(7,033)	(6,542)
Corporate expenses	**(23,010)**	(21,428)	(19,276)	(16,313)	(15,808)	(13,316)
Earnings before income taxes	**$ 218,853**	$ 193,174	$ 166,422	$ 122,491	$ 98,434	$ 79,406
Identifiable assets:						
Energy control	**$ 542,784**	$ 485,713	$ 413,878	$ 359,478	$ 173,225	$ 161,093
Fluid process control	**264,095**	263,487	237,492	211,311	188,046	170,905
Transportation control	**177,937**	159,375	154,311	124,995	109,405	97,966
Consumer products	**39,184**	44,523	45,696	37,300	31,748	31,010
	1,024,000	953,098	851,377	733,084	502,424	460,974
General corporate assets	**182,086**	169,429	130,930	127,542	103,996	74,955
Investments in affiliates	**16,754**	13,750	15,817	13,053	11,083	9,556
Total assets	**$1,222,840**	$1,136,277	$ 998,124	$ 873,679	$ 617,503	$ 545,485
Depreciation and amortization of fixed assets:						
Energy control	**$ 13,651**	$ 11,561	$ 10,069	$ 6,390	$ 4,149	$ 4,090
Fluid process control	**9,107**	7,759	6,942	6,616	5,375	4,590
Transportation control	**5,423**	4,824	4,091	3,588	3,350	3,332
Consumer products	**2,276**	2,131	1,965	1,574	1,556	1,566
Capital expenditures:						
Energy control	**$ 30,020**	$ 21,375	$ 18,513	$ 9,118	$ 6,660	$ 5,784
Fluid process control	**13,678**	11,950	7,363	13,059	9,960	9,830
Transportation control	**10,931**	12,261	10,118	8,534	4,106	4,440
Consumer products	**2,490**	2,877	3,261	2,250	1,496	1,152

Geographic areas	1981	1980	1979	1978	1977
Net sales:					
United States	**$1,450,867**	$1,287,068	$1,198,300	$ 936,947	$798,283
Foreign	**293,163**	269,310	202,906	130,912	102,779
Intergeographic	**(41,575)**	(34,634)	(18,133)	(14,130)	(8,840)
	$1,702,455	$1,521,744	$1,383,073	$1,053,729	$892,222
Operating income:					
United States	**$ 205,822**	$ 182,462	$ 166,409	$ 128,903	$105,481
Foreign	**37,758**	35,008	23,379	12,431	10,484
	243,580	217,470	189,788	141,334	115,965
Equity income	**2,621**	1,553	1,974	1,972	1,241
Interest income	**11,267**	10,276	6,350	4,879	4,069
Interest expense	**(15,605)**	(14,697)	(12,414)	(9,381)	(7,033)
Corporate expense	**(23,010)**	(21,428)	(19,276)	(16,313)	(15,808)
Earnings before income taxes	**$ 218,853**	$ 193,174	$ 166,422	$ 122,491	$ 98,434
Identifiable assets:					
United States	**$ 848,519**	$ 775,609	$ 700,776	$ 610,780	$435,087
Foreign	**175,481**	177,489	150,601	122,304	67,337
	1,024,000	953,098	851,377	733,084	502,424
General corporate assets	**182,086**	169,429	130,930	127,542	103,996
Investments in affiliates	**16,754**	13,750	15,817	13,053	11,083
Total assets	**$1,222,840**	$1,136,277	$ 998,124	$ 873,679	$617,503
Export sales to unaffiliated customers	**$ 132,133**	$ 116,512	$ 82,201	$ 55,149	$ 57,496

Unaudited notes to financial statements

A. Operations by quarter

Reference is made to Financial Results by Quarter, appearing on page 25 of this annual report, for certain information by quarter for 1981 and 1980.

B. Supplementary information on the effect of inflation on selected financial data

The high rate of inflation in recent years has had a significant impact on business enterprises, the effect of which is difficult to assess using traditional methods for recording and reporting business transactions. In 1979, the Financial Accounting Standards Board issued its Statement No. 33, "Financial Reporting and Changing Prices," which established standards for approximating and reporting the effect of inflation on selected accounting data.

The Company's financial statements have traditionally been presented in terms of historical costs as required by generally accepted accounting principles. Under this method, transactions are recorded on the basis of costs in effect at the time of the transactions.

The accompanying Supplemental Statement of Earnings and Six-Year Comparison of Selected Supplementary Financial Data reflect certain adjustments to the amounts shown in the primary financial statements using two additional methods, "constant dollar" and "current cost," which are described below. Since both methods inherently involve the use of assumptions, approximations and estimates, the information should not be viewed as precise indicators of the effects of inflation on General Signal's operations.

Under the guidelines of Statement No. 33 depreciation expense and cost of goods sold are the principal items required to be adjusted in the statement of earnings, since these are the items of income that are most affected by inflation. Historical revenues and other expenses are presumed to have been incurred uniformly throughout the year and are therefore equivalent to the amounts determined by the "constant dollar" and "current cost" methods.

Constant dollar

Historical dollar amounts for inventories and fixed assets are restated to recognize changes in the general purchasing power of the dollar as measured by the average 1981 Consumer Price Index for All Urban Consumers (CPI-U).

Depreciation and amortization expense under this method is determined by applying to the restated constant dollar amounts the same useful lives and depreciation methods as are used in determining historical cost depreciation and amortization. The inventory adjustment to cost of sales is calculated using beginning and end-of-year inventories restated from historical cost to average 1981 dollars.

Current cost

Historical dollar amounts for inventories and fixed assets are adjusted to reflect the current cost of these resources. This

method attempts to give recognition to the fact that the rate of increase of specific prices for goods and services acquired by the Company in a period of inflation frequently differs from that of general inflation as measured by the CPI-U.

The current cost of plant, machinery and equipment was determined by applying to historical costs appropriate indices supplied by a consulting professional appraisal firm, and in the case of land, primarily by using information available from local sources such as appraisers, recent sales of comparable parcels and indices as appropriate. Depreciation and amortization of current cost amounts is calculated using an average current cost for the year, then applying the same useful lives and depreciation methods as are used for historical cost purposes. The current cost calculations have been applied to assets owned by the Company and do not take into account the effect of new technology which is available. As a result, neither the cost of technologically improved equipment nor the potential for reducing production costs is reflected in the data.

Approximately half of the Company's domestic inventories is accounted for using the LIFO method, which results in charging current cost of inventories to cost of sales. Accordingly, cost of sales for these inventories need not be restated except as required by a reduction in LIFO quantities. Cost of sales for non-LIFO inventories was adjusted to current costs by giving effect to price changes which occurred during the period and to average inventory turnover rates. The current cost of inventories on hand was similarly calculated.

Price-adjusted data

Because both of the prescribed methods involve extensive use of assumptions and estimates, the data should be regarded as approximations. In addition, the FASB has encouraged experimentation in developing the inflation-adjusted amounts, which, together with the differing factual circumstances and inherent imprecisions in methodology, limit the comparability of such information with other business entities.

Both methods result in lower earnings in a period of inflation because non-LIFO cost of sales and depreciation expense increase due to the higher cost of replacement inventory, property, plant and equipment. Furthermore, the provision for income taxes has not been adjusted to reflect the higher costs, since the estimated inflationary effect is not deductible under present tax laws. Consequently the effective tax rate is higher in the inflation-adjusted earnings statement. Not included in the supplementary earnings calculations under the FASB procedures, but nonetheless considerations in the overall analysis of inflation's impact, are the unrealized gain from being able to repay net monetary liabilities with dollars less valuable than when they were borrowed, and the increase in value of the net assets (stockholders' equity).

An accurate assessment of the impact of inflation, particularly in today's complex economic environment, is extremely difficult. Nevertheless, in accomplishing its goals, which include earnings growth at a rate exceeding that of inflation, the Company is particularly sensitive to inflationary effects, and compensates to the extent possible by adjusting selling prices, controlling and reducing costs, improving productivity and effectively managing its assets.

Supplemental Statement of Earnings Adjusted for the Effects of Changing Prices Year Ended December 31, 1981

	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	$1,702,455	$1,702,455	$1,702,455
Costs and expenses:			
Cost of sales and operating expenses*	1,159,716	1,197,226	1,184,860
Selling, general and administrative expenses*	319,548	326,868	327,832
	1,479,264	1,524,094	1,512,692
Operating earnings	223,191	178,361	189,763
Interest income	11,267	11,267	11,267
Interest expense	(15,605)	(15,605)	(15,605)
Earnings before income taxes	218,853	174,023	185,425
Provision for income taxes	101,721	101,721	101,721
Net earnings	$ 117,132	$ 72,302	$ 83,704
Earnings per share of common stock	$4.23	$2.61	$3.02
Effective income tax rate	46.5%	58.5%	54.9%

Increase in current cost of inventories and property, plant and equipment held during the year	$72,013
Less effect of increase in the general price level	72,494
Excess of increase in the general price level over increase in current cost	$ 481

*Adjustments to net income in the amounts above include:

	Constant Dollar	Current Cost
Depreciation expense	$16,990	$14,555
Cost of sales, excluding depreciation expense	$24,012	$13,585

Six-Year Comparison of Selected Supplementary Financial Data Adjusted for Changing Prices
(restated amounts in average 1981 dollars)

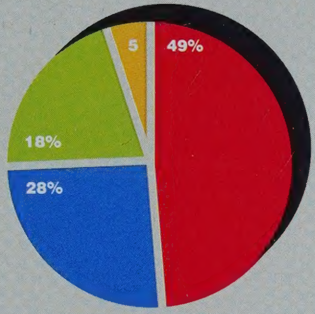
Years Ended December 31,	**1981**	1980	1979	1978	1977	1976
	(in thousands of dollars except per share amounts)					
Net sales						
-as reported	**$1,702,455**	$1,521,744	$1,383,073	$1,053,729	$ 892,222	$ 813,073
-constant dollars	**1,702,455**	1,679,591	1,732,976	1,468,965	1,339,070	1,299,009
Net earnings						
-as reported	**117,132**	104,214	87,801	61,890	49,013	40,847
-constant dollars	**72,302**	72,339	72,594			
-current cost	**83,704**	84,988	81,052			
Earnings per share of common stock						
-as reported	**4.23**	4.01	3.52	2.82	2.35	1.97
-constant dollars	**2.61**	2.78	2.91			
-current cost	**3.02**	3.27	3.24			
Cash dividends per share						
-as reported	**1.48**	1.28	1.00	.85	.60	.42
-constant dollars	**1.48**	1.41	1.25	1.18	.90	.67
Market price per share at year end						
-as reported	**38.63**	44.75	37.63	26.88	29.50	26.19
-constant dollars	**37.38**	47.17	44.59	36.09	43.18	40.93
Net assets at year end						
-as reported	**753,152**	661,731	576,021			
-constant dollars	**938,685**	857,381	824,039			
-current cost	**937,934**	852,397	824,516			
Unrealized gain from holding net monetary liabilities during the year (a)	**3,448**	8,414	10,890			
Excess of increase in general price level over increase in current cost of inventory and property, plant and equipment (b)	**481**	29,211	42,164			
Average consumer price index	**272.4**	246.8	217.4	195.4	181.5	170.5

(a) Besides the impact of inflation on the conventional measures of net income, inflation also affects monetary assets and liabilities, such as cash, receivables and payables. When monetary assets are held during periods of inflation, they lose purchasing power. Conversely, the holding of monetary liabilities results in a benefit because they will be paid off in dollars of diminished purchasing power. The Company has experienced an unrealized gain as a result of being in a net monetary liability position during the year.

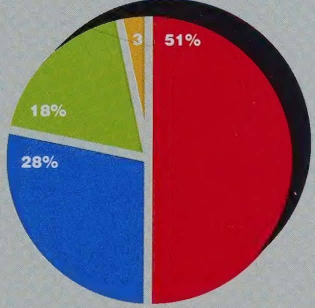
(b) The current cost of inventory was $428,087, and of property, plant and equipment (net of accumulated depreciation) was $425,876, at December 31, 1981.

OUR BUSINESS

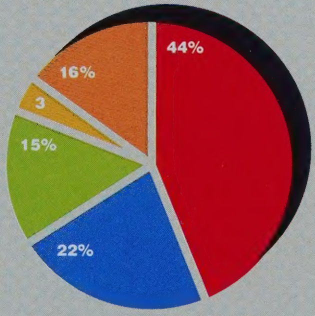
SALES
$1.70 BILLION



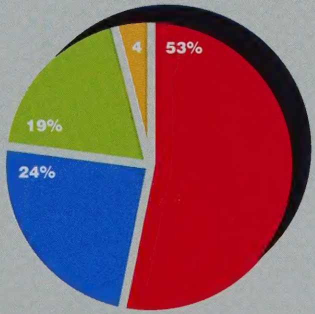
PRETAX EARNINGS
$219 MILLION



ASSETS
$1.22 BILLION



CAPITAL EXPENDITURES
$57 MILLION



ENERGY CONTROL
FLUID PROCESS CONTROL
TRANSPORTATION CONTROL
CONSUMER PRODUCTS
CORPORATE

Energy Control
The group manufactures equipment employed in the distribution, control and use of electric energy. Major markets include the electric and telecommunications utilities and the electrical construction and process industries. Products include electronic instrumentation; digital-computer-directed and other process control systems; distribution transformers; regulated power supplies; electric heat processing equipment; coal metering equipment; microelectronics production equipment; telecommunications equipment; power distribution components; fire alarms and fire, smoke and intrusion detection equipment; and time recording and automated parking lot control systems.

Fluid Process Control
Primary markets served are process industries, industrial and municipal water and wastewater and agricultural processing. The group's products include specialty control systems; valves and actuators; mechanical mixers; aerators; biological wastetreatment systems; centrifugal, wastewater, turbine and high-vacuum pumps; instruments for measuring pressure, flow and temperature; specialty air pollution control equipment; and chemical specialties.

Transportation Control
The group provides railroads and rail mass transit systems with highly engineered systems and controls, including cab, wayside and centralized traffic control components and systems; push-button interlocking controls; other computerized railroad control systems; and braking control systems and equipment for freight and passenger cars. This group also supplies the world's airports with radar navigation, identification and ground weather monitoring systems, and the marine industry with interior shipboard communication systems and propulsion controls. It serves the heavy-duty mobile construction, mining, materials-handling, agricultural, auto and truck markets with control products such as hydraulic gear pumps and motors, directional control valves, hydrostatic transmissions and advanced fluid power systems, and with vehicular steering and suspension controls.

Consumer Products
Through this group, the company is a major producer of floor-care appliances, and is best known for its Regina Electrikbroom®, the industry's leading lightweight vacuum cleaner. Electric motors for small appliances and for the power tool, marine, automotive and garden equipment markets are also produced.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
345 Park Avenue, New York, N.Y. 10154

The Board of Directors and Stockholders
General Signal Corporation:

We have examined the balance sheet of General Signal Corporation and consolidated subsidiaries as of December 31, 1981 and 1980 and the related statements of earnings, stockholders' equity and changes in financial position for each of the years in the three year period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of General Signal Corporation and consolidated subsidiaries at December 31, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 8, 1982

OPERATING UNITS

Energy Control

Anchor/Guth
Manchester, New Hampshire

Bishop Electric
Cedar Grove, New Jersey

Cincinnati Time Recorder
Cincinnati, Ohio

Dowzer Electric
Mt. Vernon, Illinois

Edwards
Farmington, Connecticut

Hevi-Duty Electric
Goldsboro, North Carolina

Industrias Sola Basic
Mexico City, Mexico

Kayex
Rochester, New York

Leeds & Northrup
North Wales, Pennsylvania

Lindberg
Chicago, Illinois

Nelson Electric
Tulsa, Oklahoma

O-Z/Gedney
Terryville, Connecticut

Sola Electric
Elk Grove Village, Illinois

Stock Equipment
Cleveland, Ohio

Telecommunications Technology
Sunnyvale, California

Tempress
Los Gatos, California

Warren/Dielectric
Livingston, New Jersey

Xynetics
Santa Clara, California

Fluid Process Control

Aurora Pump
North Aurora, Illinois

BIF
West Warwick, Rhode Island

Ceilcote
Berea, Ohio

DeZurik
Sartell, Minnesota

Kinney Vacuum
Canton, Massachusetts

Marsh Instrument
Skokie, Illinois

Mixing Equipment
Rochester, New York

Perolin
Wilton, Connecticut

Transportation Control

Axel Electronics
Jamaica, New York

Cardion Electronics
Woodbury, New York

Dynapower
Watertown, New York

General Railway Signal
Rochester, New York

Henschel
Amesbury, Massachusetts

Hydreco
Kalamazoo, Michigan

Metal Forge
Columbus, Ohio

New York Air Brake, Stratopower
Watertown, New York

Consumer Products

General Signal Appliances
Welland, Ontario

GSE/Voorlas
Carlisle, Pennsylvania

Regina
Rahway, New Jersey

Printed in U.S.A.

DIRECTORS AND OFFICERS

Directors

Samuel A. Casey†
Chairman of the Executive Committee, Great Northern Nekoosa Corporation

F. Arnold Daum*
Senior Partner, Cahill Gordon & Reindel, Attorneys

David J. Dunn
Managing Partner, Idanta Partners

Edward W. Franklin*
Senior Vice President

Fred H. Gordon, Jr.†
Retired Chairman, Mixing Equipment Co., Inc. unit

John P. Horgan†*
Private investor

Harold J. Hudson, Jr.*
Chairman and Chief Executive Officer, General Re Corporation

Reginald H. Jones
Retired Chairman and Chief Executive Officer, General Electric Company

David T. Kimball*
President and Chief Operating Officer

Nathan R. Owen*
Chairman and Chief Executive Officer

*Member of Executive Committee
†Member of Audit Committee

Officers

Nathan R. Owen
Chairman and Chief Executive Officer

David T. Kimball
President and Chief Operating Officer

Edward W. Franklin
Senior Vice President

Edward C. Prellwitz
Vice President–Finance

William J. Ball
Vice President and Group Executive

Albert W. Buesking
Vice President and Controller

Paul Gibian
Vice President and Group Executive

J. Robert Hipps
Vice President and Treasurer

Glenn E. Ronk
Vice President and Group Executive

John T. Rossello
Vice President–Human Resources

Edgar J. Smith, Jr.
Vice President and General Counsel

Richard H. Canale
Secretary

Group Executives

Leo J. de Bos
Gerald E. Collins
George J. Demos
Arthur J. Herrmann, Jr.
Warren L. Whalley
P. Owen Willaman

Annual Meeting

The 1982 annual meeting of shareholders will be held at 11:00 a.m. on Friday, April 23, 1982, at the Waldorf Astoria Hotel, 301 Park Avenue, New York City.

Form 10-K

The company's fiscal 1981 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, will be available after April 1, 1982. A copy of this report may be obtained by writing to the Secretary of the Corporation.

Transfer Agent and Registrar

Marine Midland Bank, N.A.

Auditors

Peat, Marwick, Mitchell & Co.
New York, New York

Listings

General Signal Corporation common stock is listed and traded on the New York and Pacific stock exchanges under the symbol GSX.

Dividend Reinvestment Plan

An Automatic Dividend Reinvestment Plan and an Optional Cash Payment Plan are available to shareholders of record. Information about these plans is available from:

Marine Midland Bank, N.A.
Corporate Trust Operations
140 Broadway, 12th Floor
New York, New York 10015

An Equal Opportunity Employer

GENERAL SIGNAL
CORPORATION

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STAMFORD, CONNECTICUT 06904

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